CANADIAN EXPORT CEGO GAS & OIL LTD.

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We are pleased to send you a copy of Canadian Export Gas & Oil's current Annual Report to its shareholders.

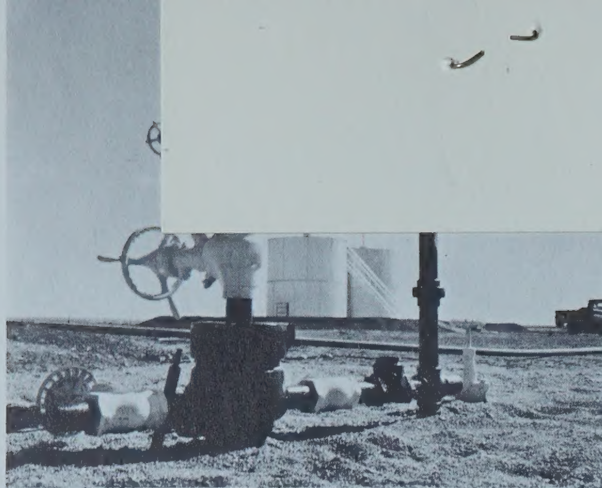
A. F. Brek

No acknowledgment is necessary.

CANADIAN CE GAS & OIL

Annual Report

APRIL 30TH, NINETEEN SIXTY-SEVEN



THE YEAR'S HIGHLIGHTS

		1966-67	1965-66
PRODUCTION (Net after royalties):			
Oil Production — Annual . . . . Barrels		425,690	403,883
— Daily Average . . . . Barrels		1,166	1,107
Gas Production — Annual . . . (Billion Cubic Feet)		6.867	7.945
— Daily Average (Million Cubic Feet)		19	22
EARNINGS:			
Gross operating income less royalties paid:			
Crude oil sales	$	1,064,725	1,009,228
Natural gas sales	$	1,024,829	1,161,160
Royalty income	$	169,793	166,333
	$	2,259,347	2,336,721
Cash flow from operations	$	1,018,319	1,172,273
Per share	¢	13	15
Net earnings (loss) before non-recurring gain	$	(98,425)	26,455
Net earnings including non-recurring gain . .	$	3,494,259	26,455
DRILLING ACTIVITY:			
Exploratory wells drilled (gross):			
Oil		3	3
Gas		1	2
Dry		14	13
		18	18
Development wells drilled (gross):			
Oil		6	12
Gas		3	2
Dry		1	4
		10	18

NOTE: This year, for the first time, Bluewater Oil & Gas financial and production data have been included in CEGO consolidated results. For comparative purposes, 1966 figures have been correspondingly adjusted.

ANNUAL REPORT 1967

Head Office
736 - 8th Avenue S.W., Calgary, Alberta

DIRECTORS	AUGUST F. BECK, *Calgary*
	F. R. BURTON, *Toronto*
	ERIC CONNELLY, *Calgary*
	JOHN DRYBROUGH, *Winnipeg**
	WILBUR L. GRIFFITH, *Calgary*
	FRANCIS KERNAN, *New York*
	PLATO MALOZEMOFF, *New York*
	MILTON H. MANDEL, *New York*
	FRANCIS E. RINEHART, *New York*
	FRANZ SCHNEIDER, *New York*
	* Elected June 13
OFFICERS	AUGUST F. BECK, *President and General Manager*
	PAUL C. EVANS, *Vice-President — Production*
	W. P. HANCOCK, *Vice-President — Exploration*
	DEREK N. WALKER, *Secretary-Treasurer*
	FRANCIS E. RINEHART, *Assistant Secretary*
SUBSIDIARIES	CANEX GAS LTD.
	BLUEWATER OIL & GAS LIMITED
	CEGO MINERALS LTD.
	NORTH DAKOTA ROYALTIES LTD.
SHARES LISTED	AMERICAN STOCK EXCHANGE, *New York*
	MIDWEST STOCK EXCHANGE, *Chicago*
	THE TORONTO STOCK EXCHANGE
TRANSFER AGENTS	CROWN TRUST COMPANY, *Calgary and Toronto*
	HARRIS TRUST AND SAVINGS BANK, *Chicago*
	BANKERS TRUST COMPANY, *New York*
REGISTRARS	CROWN TRUST COMPANY, *Calgary and Toronto*
	AMERICAN NATIONAL BANK AND TRUST COMPANY, *Chicago*
	THE BANK OF NEW YORK, *New York*
AUDITORS	PEAT, MARWICK, MITCHELL & CO., *Calgary*

TO THE SHAREHOLDERS:

Your Company's most significant development in the past year was a \$6 million transaction involving acreage in northwestern Alberta. Under the agreement CEGO sold 50% of its residual interest in 1,540,000 gross reservation acres to Chevron Standard Limited. This sale provides for cash payments to CEGO totalling \$4 million payable over a period of 3½ years, plus \$2 million to be expended by Chevron Standard for the account of your Company on certain future exploratory activities on this acreage. The lands involved are a part of the 2.2 million acres acquired through the purchase of Siebens Leaseholds, Ltd., as noted in the Company's 1965 annual report.

Prior to the sale, your Company had entered into varying types of farmout agreements with six large companies covering the 1,540,000 acres. To earn their interests the companies concerned will expend approximately \$4 million on exploration surveys and drilling. These commitments are not affected by the sale to Chevron Standard.

Assuming fulfillment of all the farmout commitments, and giving effect to the sale of half its interest to Chevron Standard, your Company will retain an interest equivalent to 18.45% or 284,000 gross reservation acres.

As a result of the sale CEGO has a potential exposure to a substantial exploration program with no further cash investment required. As much as \$16 to 18 million could be spent on exploration by the other companies over the next few years. CEGO's proportionate share of these costs amounting to \$2 million are the obligation of Chevron Standard.

Any of the committed \$2 million not expended by Chevron Standard on the Company's behalf is to be paid to CEGO by December 1972.

EXPLORATION AND DEVELOPMENT

CEGO has continued an active exploration and development program in Alberta, northeastern British Columbia and Saskatchewan. The Company drilled or participated in 28 wells, 18 exploratory or extensions and 10 development. This resulted in 13 successful completions.

The improved working capital position of the Company resulting from the sale to Chevron Standard will provide funds to undertake a more aggressive and diversified exploration program. This program will be directed towards participation in several other attractive areas of oil and gas bearing potential in Western Canada.

GAS AND OIL PRODUCTION

The Company's gas production for the fiscal year declined approximately 14% due to lowering of purchaser's requirements to minimum contractual levels. Oil production, however, increased 5% and was the highest in Company history by a slight margin. Completion of the development program at Swan Hills is anticipated this coming year. With production from this field and the continued increase from the secondary recovery project in Manitoba, oil production could show a greater increase this year. Gas production will at least maintain its present level.

FINANCIAL

The following figures give effect to the consolidation of Bluewater Oil & Gas Limited. CEGO owns a 61% interest in this Ontario company which has not previously been incorporated in CEGO's financial statements.

The Company's gross income of \$2,259,000 was down 3%. Cash flow at \$1,018,000 was down 13%. The Company showed a loss of \$98,000 compared to earnings of \$26,000 last year.

The above figures do not give effect to the non-recurring gain resulting from the transaction with Chevron Standard.

CORPORATE

The Company is pleased to announce the election of Mr. John Drybrough as a director. Mr. Drybrough is Chairman of the Board of Newmont Mining Corporation of Canada Limited. He is also a Director of Sherritt Gordon Mines and Cassiar Asbestos.

Because of increased trading in CEGO shares it was necessary to appoint a Registrar and Transfer Agent in New York City. The new Registrar is the Bank of New York, and the Transfer Agent is the Bankers Trust Company.

MARKET OUTLOOK

The development of large new reserves in Alberta, together with the continued evidence of an increasing shortage of conventional hydrocarbon reserves and increasing consumption in the United States, has enhanced the export potential for Canadian oil. The intensive continuing studies and discussions among industry leaders and government officials both in the United States and Canada would indicate an eventual solution which should permit Canadian oil to phase into the increasing requirements of the United States without materially disrupting that country's production capabilities. The current crisis in the Middle East brings into sharper focus the logic of Canada as a stable supplier in increasing volume of hydrocarbons to the United States.

CARTER COMMISSION

A disturbing factor in the generally favorable economic future of the oil and gas industry in Canada are the recommendations contained in the report on Taxation by the Carter Commission. This body was appointed by the government 4 years ago to analyze the Canadian tax structure and recommend a more simplified and comprehensive tax policy.

The Commission bases its recommendations on a philosophy of "from everyone according to his ability and to everyone according to his need", and "a dollar is a dollar regardless of how it has been obtained." The report has made some recommendations which show an almost shocking lack of understanding of the economic forces governing the successful operation of the extractive industries. It completely ignores their special contribution to Canada's economy. Any curtailment of these industries will have a decidedly adverse effect on the standard of living in Canada.

Yet the report recommends that incentives such as depletion allowances be abolished, and a capital gains tax at regular income tax rates be imposed. These and other changes would have the effect of driving capital away from these industries. The arguments employed to justify these recommendations are in many cases undocumented.

A period until September 1967 has been allocated by the Finance Minister for submission of briefs and rebuttals, after which a White Paper is to be brought down for consideration of Parliament. According to published statements, implementation will not be before 1969, if then.

Your Company, with many others, is preparing a submission to rebut the arguments and reasoning of the report. However, your Directors and management strongly urge all Canadian shareholders to add their voices to the protests. Shareholders can contact either their Member of Parliament or the Finance Minister in Ottawa. Copies of the report may be obtained from the Queen's Printer in Ottawa.

The Directors wish again to express their appreciation to all Company employees, both in the field and in the office, for their continued loyalty to and interest in the Company's activities.

On behalf of the Board,

A. F. Beck

June 29, 1967.

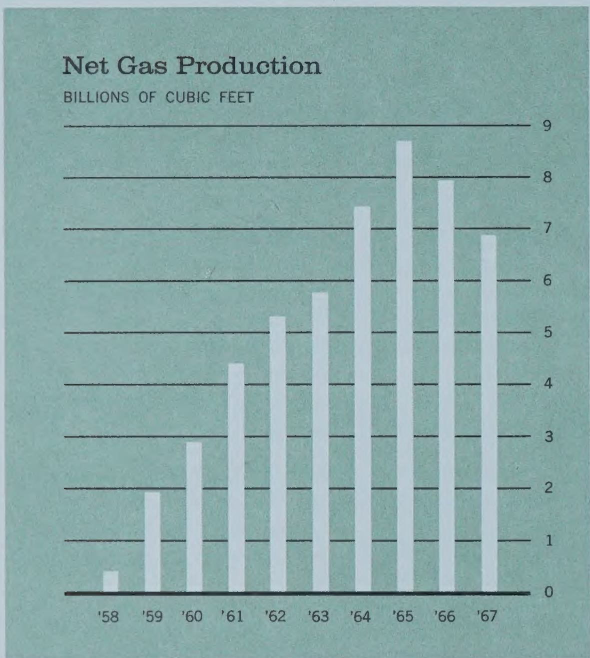
A. F. BECK
President

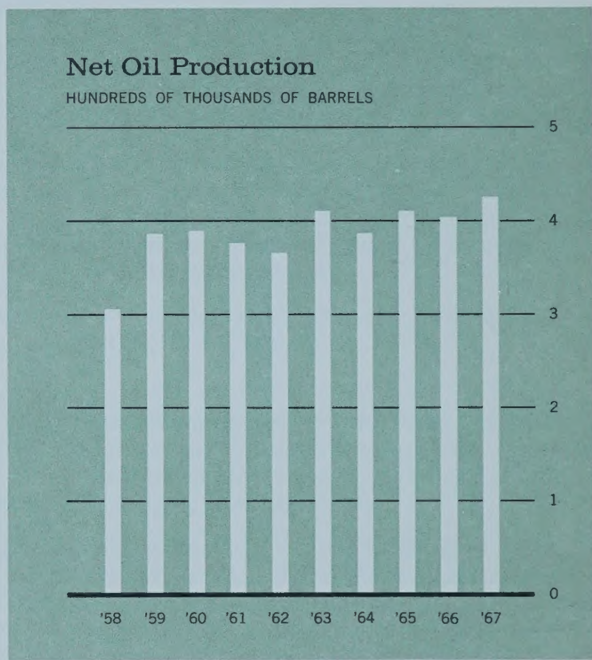
GAS PRODUCTION

CEGO'S gas production for the past year decreased by 14% to 6.867 billion cubic feet. This decrease has again been due to lower requirements by the purchaser from the Company's fields and is not a function of their ability to produce.

As the production is now essentially on a minimum basis as stipulated under CEGO contracts, gas production should not decrease further in the years remaining under these contracts.

At Hilda two additional wells were drilled and connected to the gas gathering system. Both wells indicated better than average producing characteristics for this area.





Net Gas Production by Fields

(After Royalties)

Map Ref.		*(Billion Cubic Feet)* 1967	1966	1965	1964	1963
5	Steveville	2.124	3.000	3.762	3.031	2.079
6	Bindloss	1.769	1.742	2.003	1.776	1.196
9	Hilda	1.501	1.500	1.515	1.445	1.450
3	Sedalia	0.398	0.422	0.433	0.412	0.374
7	Atlee-Buffalo-Jenner	0.321	0.337	0.331	0.245	0.227
2	Wood River	0.277	0.329	0.312	0.285	0.191
1	Braeburn (Saddle Hills)	0.218	0.211	0.046	—	—
8	Countess-Duchess	0.118	0.128	0.133	0.165	0.212
	Ontario (Bluewater)	0.115	0.114	—	—	—
4	Crossfield-Turner Valley	0.026	0.022	0.023	0.021	0.023
	Medicine Hat	—	0.140	0.152	0.086	—
		6.867	7.945	8.710	7.466	5.752

OIL PRODUCTION

During the past year, CEGO'S net oil production increased 5% to 425,690 barrels setting a new high. This increase was due to the continued success of the Manitoba secondary recovery projects and successful completion of additional wells in the Swan Hills field.

ALBERTA

Virginia Hills

The farmee has drilled a second oil well on CEGO acreage. Both wells are producing their allowables. The Company interest will increase to a 20% working interest in these wells, after recovery of completion costs in about six months.

Crossfield

Production from this Unit has been affected because of lack of immediate flood response in certain areas of the field and the consequent lowering of allowables under the present Alberta proration program. While this problem will not affect the ultimate recoverable reserves to be obtained from this field, it does defer realization of production income.

Swan Hills

Nine successful oil wells have now been drilled and completed on this property and a tenth is underway. Additional drilling to fully develop this property will be continued. CEGO has a 33⅓% interest in these wells.

It is expected that the Unitization of this field (House Mountain Unit No. 2), which will include CEGO Swan Hills acreage, will be finalized by September 1, 1967, and water injection will commence the following month. Based upon the estimates of qualified reservoir engineers and the reservoir performance data of House Mountain Unit No. 1 the pressure maintenance program to be initiated is expected to more than triple the primary recoverable oil from this reservoir.

Swalwell

The Three Hills Ostracod Unit No. 1 formed to implement water flooding of this reservoir became effective February 1, 1967 and water injection commenced on March 10, 1967. CEGO has a 7.96% interest in this Unit.

Olds

CEGO has a 50% interest in a completed well which is an extension to the Olds field. The potential of this gas well is being determined by testing.

MANITOBA

Virden-Roselea

With the impending start-up of Virden-Roselea Unit No. 3, CEGO is now participating in three active Manitoba water flood programs. The flood response has been excellent on the first two units as is evidenced by a 39% increase in CEGO'S Manitoba oil production.

Present engineering estimates indicate that production from these units will increase for several years before normal production decline takes effect.

Net Oil Production by Fields

(After Royalties)

Map Ref.		1967	1966	1965 *(Net Barrels)*	1964	1963
13	Virden-Roselea, Man.	150,444	108,147	99,570	93,950	93,702
10 & 11	Florence-Carnduff, Sask.	90,964	103,055	120,011	132,467	166,231
6	Crossfield, Alberta	36,682	52,792	81,688	92,521	90,832
12	Northgate, Sask.	30,840	49,929	40,385	4,043	—
4	Big Valley, Alberta	29,859	25,214	30,241	29,444	31,815
1	Swan Hills, Alberta	28,378	1,258	—	—	—
8 & 9	Browning-Willmar, Sask.	13,553	13,976	—	—	—
7	Manyberries, Alberta	12,575	13,924	14,587	16,572	17,611
2	Virginia Hills, Alberta	9,865	11,371	10,269	—	—
	Willey, Ontario (Bluewater)	8,967	8,276	—	—	—
3	Wood River, Alberta	7,011	7,459	5,352	4,985	5,384
5	Swalwell, Alberta	1,909	2,490	3,596	—	—
	Other Areas	4,643	5,992	8,412	8,533	8,829
		425,690	403,883	414,111	382,515	414,404

EXPLORATION AND LAND

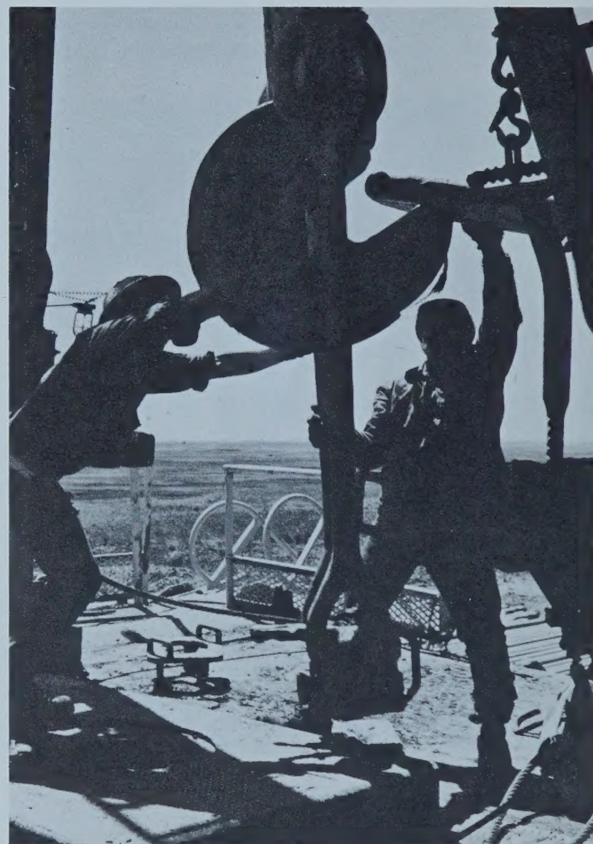
Eighteen exploratory tests were drilled on Company interest acreage during the past year. Six of these were drilled under farmout agreements at no cost to the Company.

In Alberta, CEGO participated in the cost of four wells, three being successful extensions to the Swan Hills pool and one a dry hole in the Marten Hills area. Four wells on Company acreage farmed out to other operators were abandoned as dry holes.

Four dry holes were drilled on Company acreage in Saskatchewan, two of them being under farmout agreements to other operators.

The Company participated in three wells in Northeastern British Columbia. Two were abandoned as dry holes and one in the Flat Rock area, 15 miles northeast of St. John, is cased as a potential gas well.

CEGO'S Ontario subsidiary Bluewater Oil & Gas, participated in three wells, all of which were dry holes.



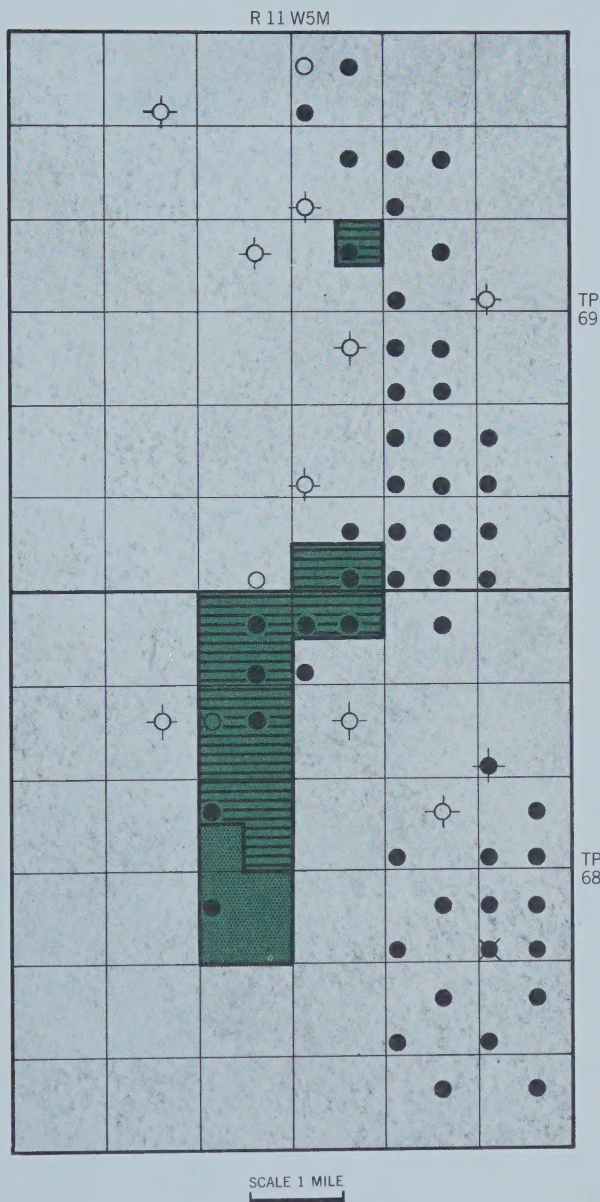
Northwestern Alberta Farmout Lands

Northwestern Alberta again received the lion's share of industry exploratory and drilling activity. The discovery and extremely successful development of the North Zama field resulted in some 100 wells being drilled in an area of approximately 200 square miles.

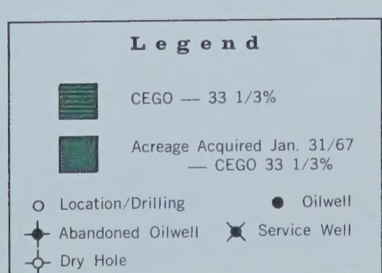
Seismic surveys were continued by the farmees over the CEGO farmout lands, most of this being done in the winter work season. To date some 1,000 miles of detailed seismic work has been completed. During the last year three Precambrian tests were drilled and abandoned — one on each of the Ashland, Home and Imperial (east) blocks. To date four wells have been drilled on the 1½ million acres of farmout lands. The fulfillment of all the pre-requisites of the various agreements requires the drilling of eight additional Precambrian tests. Additional seismic control in most instances will be required for the selection of desirable test well locations. It is anticipated that all the commitments may not be fulfilled until early 1969.

Land

The sale to Chevron Standard of one-half of the Company's interest in the one and one-half million acres of Northwestern Alberta farmout lands has significantly affected CEGO'S net acreage position. The Company now owns 1,104,868 net acres, down 938,000 acres from the previous year. Approximately 700,000 acres of this decrease results from the sale to Chevron Standard. The balance of the decrease is attributable to assignment of earned interest (91,500 acres) in two of



SWAN HILLS AREA
Central Alberta



the farmout areas and the conversion to lease or surrender of certain other reservation blocks.

The Company participated in the acquisition of 1,120 acres (net 373 acres) of Crown lands offsetting production in the Swan Hills field.

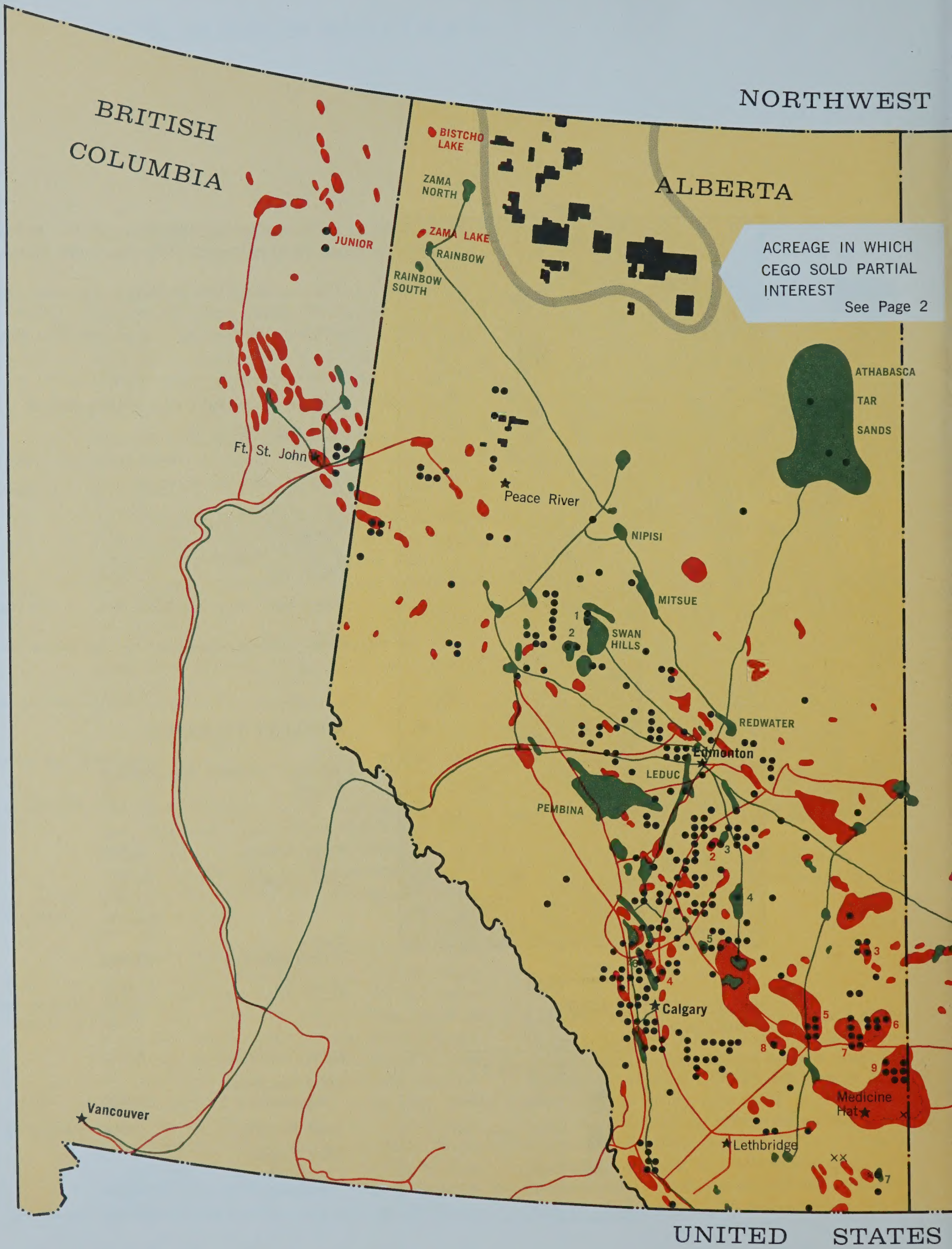
LAND AND ROYALTY HOLDINGS

As at April 30th, 1967

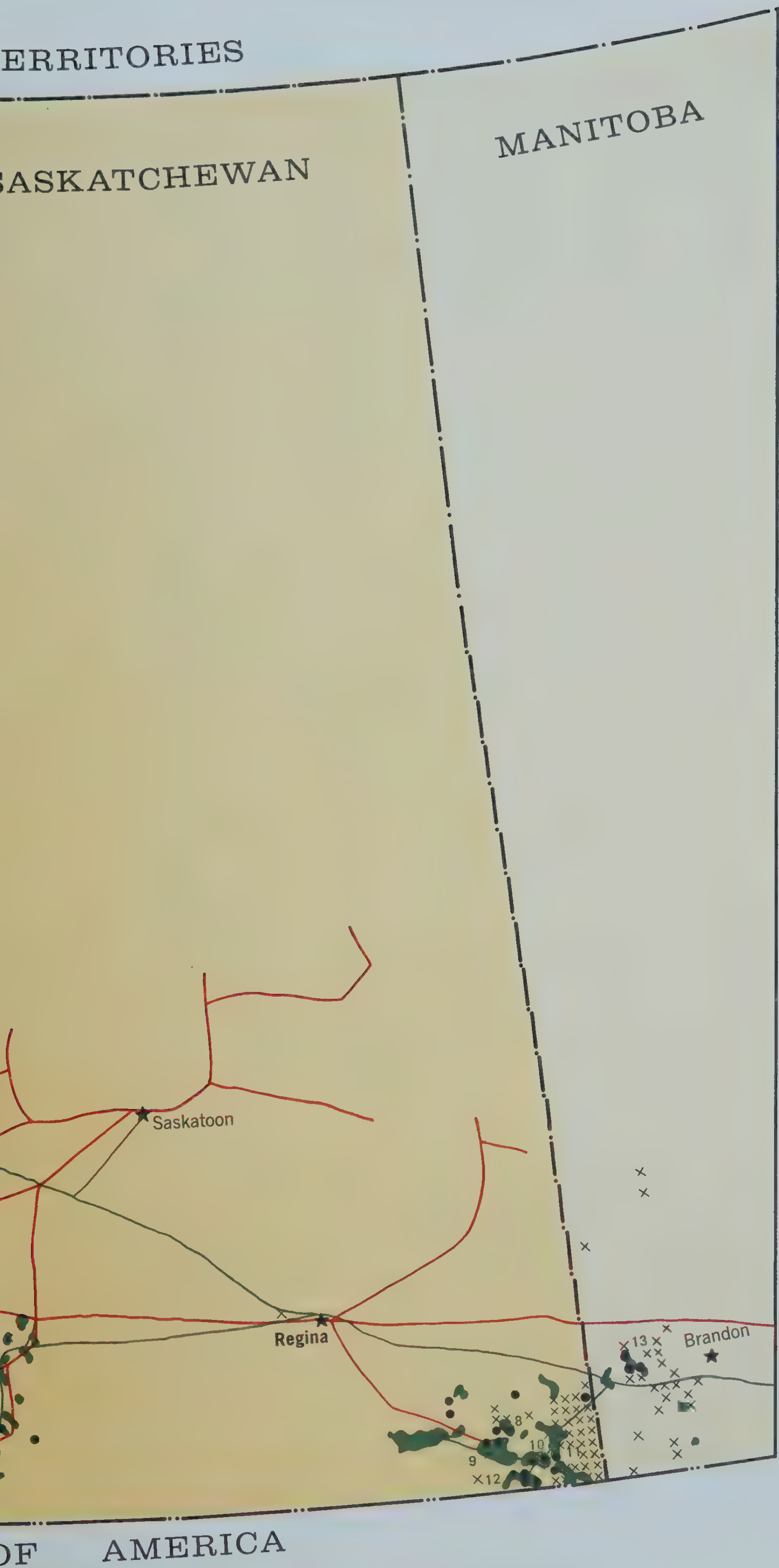
	Gross Acres	Net Acres
Alberta	2,087,710	1,060,675
Saskatchewan . .	43,996	17,145
Manitoba . . .	1,370	1,370
British Columbia .	22,813	6,755
Bluewater . . .	65,494	18,923
Total land . . .	**2,221,383**	**1,104,868**

ROYALTY INTERESTS

	Gross Acres	Royalty Interest
Alberta	640	15%
	11,355	Varying Interests to 2½%
Total Alberta . .	**11,995**	
Saskatchewan . .	174,240	2½%
	5,880	Varying Interests
	12,360	Mineral Titles
Total Saskatchewan .	**192,480**	
Manitoba . . .	800	5%
	2,963	Varying Interests
	4,410	½ Mineral Titles
Total Manitoba .	**8,173**	
Total Northwest Territories . .	**84,549**	0.34%
Total Ontario . .	**1,613**	Varying Interests
Total Royalty and Mineral Interests . . .	**298,810**	



NORTHWEST
BRITISH COLUMBIA
ALBERTA
BISTCHO LAKE
ZAMA NORTH
ZAMA LAKE
RAINBOW
RAINBOW SOUTH
JUNIOR
ACREAGE IN WHICH CEGO SOLD PARTIAL INTEREST
See Page 2
ATHABASCA TAR SANDS
Ft. St. John
Peace River
NIPISI
MITSUE
SWAN HILLS
REDWATER
Edmonton
LEDUC
PEMBINA
Calgary
Medicine Hat
Lethbridge
Vancouver
UNITED STATES



CEGO LAND HOLDINGS IN WESTERN CANADA 1967

CEGO'S GAS PRODUCING AREAS

1 BRAEBURN (Saddle Hills)
2 WOOD RIVER
3 SEDALIA
4 CROSSFIELD
5 STEVEVILLE
6 BINDLOSS
7 ATLEE-BUFFALO-JENNER
8 COUNTESS-DUCHESS
9 HILDA

CEGO'S OIL PRODUCING AREAS

1 SWAN HILLS, Alberta
2 VIRGINIA HILLS, Alberta
3 WOOD RIVER, Alberta
4 BIG VALLEY, Alberta
5 SWALWELL, Alberta
6 CROSSFIELD, Alberta
7 MANYBERRIES, Alberta
8 WILLMAR, Saskatchewan
9 BROWNING, Saskatchewan
10 FLORENCE-CARNDUFF, Saskatchewan
11 OXBOW, Saskatchewan
12 NORTHGATE, Saskatchewan
13 VIRDEN-ROSELEA, Manitoba

LEGEND

● *Townships in which CEGO has Petroleum and/or Natural Gas Leases*

× *Townships in which CEGO has Royalty Interests*

■ *Petroleum and Natural Gas Reservations held by CEGO*

Consolidated Statement of
SOURCE AND DISPOSITION OF FUNDS

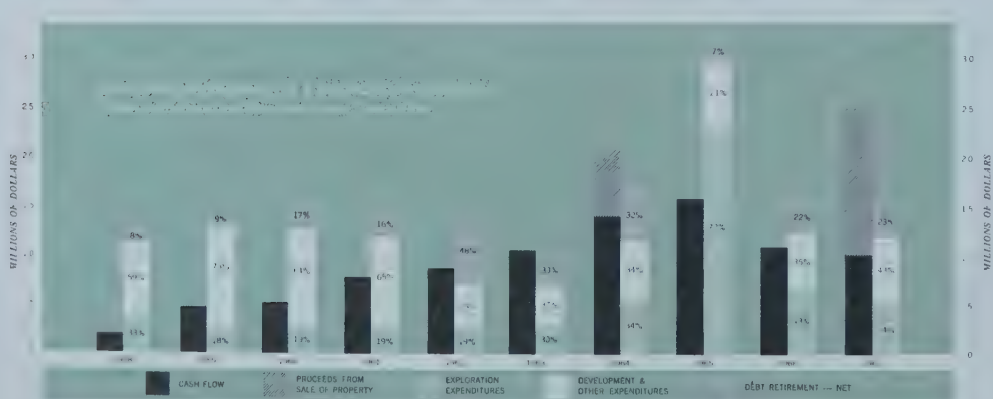
Year ended April 30, 1967
(With comparative figures for 1966)

		1967		1966
SOURCE OF FUNDS:				
Proceeds from sale of properties		$4,072,000		
Less amount not receivable within one year		2,500,000		
		1,572,000		—
Cash flow from operations (see note below)		1,018,319		$1,172,273
Proceeds from sale of capital stock		231,781		—
Reservation deposits refunded and other receipts		72,460		250,469
Bank loans		—		200,400
TOTAL FUNDS EMPLOYED		$2,894,560		$1,623,142
DISPOSITION OF FUNDS:				
Exploration:				
Land acquisition and exploration surveys	8%	$ 116,807	20%	$ 317,647
Wildcat and stepout drilling	26	398,684	23	374,579
Development and Other Expenditures:				
Drilling and equipment of wells	39	594,392	31	509,303
Gas gathering systems, plants and miscellaneous (net)	4	58,669	4	59,385
FUNDS INVESTED IN THE COMPANY	77	1,168,552	78	1,260,914
Long Term Debt Reduction:				
Companies' sinking fund debentures	16	251,500	16	250,000
6% Notes payable and bank loans	7	106,300	6	100,000
TOTAL FUNDS USED	100%	1,526,352	100%	1,610,914
INCREASE IN WORKING CAPITAL		1,368,208		12,228
		$2,894,560		$1,623,142

NOTE:

Net loss before non-recurring gain per statement of earnings	$ (98,425)
Add:	
Provisions and amortization of bond discount not involving the outlay of cash	601,860
Dry hole costs included in the disposition of funds, and abandonments	514,884
Cash flow from operations as shown above	$1,018,319

See accompanying notes to financial statements.



Consolidated Statement of
EARNINGS AND RETAINED EARNINGS

Year ended April 30, 1967
(With comparative figures for 1966)

		1967	1966*
OPERATING INCOME:			
Crude oil and natural gas sales, less royalties		$2,089,554	$2,170,388
Royalty income		169,793	166,333
		2,259,347	2,336,721
Less production expenses		498,308	518,189
		1,761,039	1,818,532
Deduct administrative and general expenses — net		263,952	223,321
Net operating profit before depletion and depreciation		1,497,087	1,595,211
OTHER CHARGES—NET:			
Share transfer and other shareholder expenses	$ 124,115		73,671
Acreage rentals on non-producing properties	175,324		215,501
Interest on debentures	69,773		80,810
Interest — other	140,451		135,791
Amortization of bond discount	10,000		10,000
Dry holes and abandoned properties	514,884		497,928
	1,034,547		1,013,701
DEDUCT:			
Miscellaneous income	30,895		82,835
		1,003,652	930,866
Net earnings before the following provisions		493,435	664,345
PROVISIONS:			
Depletion and amortization	329,738		393,575
Depreciation	262,122		244,315
		591,860	637,890
Net (loss) earnings before non-recurring gain		(98,425)	26,455
NON-RECURRING gain on disposal of property — net		3,592,684	—
Net earnings including non-recurring gain (Note 7)		3,494,259	26,455
RETAINED EARNINGS at beginning of year		734,039	707,584
RETAINED EARNINGS at end of year		$4,228,298	$ 734,039

See accompanying notes to financial statements.

* 1966 reclassified for comparative purposes.

CANADIAN EXPORT GAS & OIL LTD. AND SUBSIDIARIES

CONSOLID

(With comparative figures for 1966)

ASSETS

		1967	1966
CURRENT ASSETS:			
Cash		$ 189,563	$ 168,209
Accounts receivable		2,101,428	686,372
Marketable securities, at cost (quoted market value $259,888)		236,746	176,696
Inventories of equipment at the lower of cost or market		52,933	89,967
Total current assets		2,580,670	1,121,244
ACCOUNT RECEIVABLE not due within one year		2,500,000	—
REFUNDABLE DEPOSITS AND INVESTMENTS		96,205	168,665
FIXED ASSETS — at cost:			
Productive properties and equipment	$11,082,593		10,551,075
Other assets	113,050		109,499
	11,195,643		10,660,574
Less accumulated depreciation, depletion and amortization	5,155,957		4,685,593
	6,039,686		5,974,981
Undeveloped properties	2,072,070		2,525,198
		8,111,756	8,500,179
DEFERRED CHARGES (unamortized):			
Exploration and preproduction expenditures (Note 1)	1,690,376		1,719,461
Bond discount	38,333		48,333
		1,728,709	1,767,794
		$15,017,340	$11,557,882

See accompanying notes to financial statements.

TED BALANCE SHEET AT APRIL 30, 1967

LIABILITIES

		1967	1966
CURRENT LIABILITIES:			
Accounts payable and accrued expenses		$ 551,894	$ 597,811
Accrued debenture interest		22,415	27,623
Payments required for debenture sinking funds		191,643	130,500
Bank loans due within one year (secured) (Note 2)		481,200	400,000
6% Notes payable due within one year (secured) (Note 3)		100,000	100,000
Total current liabilities		1,347,152	1,255,934
BANK LOANS, net of current portion (secured) (Note 2)		1,461,261	1,467,561
6% NOTES PAYABLE, net of current portion (secured) (Note 3)		200,000	300,000
FUNDED DEBT (Note 4)		1,033,000	1,284,500
SHAREHOLDERS' EQUITY:			
Capital stock (Notes 4 and 5):			
Authorized 12,000,000 shares of a par value of 16⅔ cents each.			
Issued and outstanding 7,919,769 shares (1966, 7,828,394 shares)	$ 1,319,962		1,304,732
Contributed surplus	5,427,667		5,211,116
	6,747,629		6,515,848
Retained earnings	4,228,298		734,039
		10,975,927	7,249,887
		$15,017,340	$11,557,882

Approved on behalf of the Board:

AUGUST F. BECK, Director

FRANCIS E. RINEHART, Director

This is the balance sheet referred to in the report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated June 30, 1967.

NOTES TO FINANCIAL STATEMENTS

April 30, 1967

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all of the company's subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

The accounts of the company's majority-owned subsidiary, Bluewater Oil & Gas Limited were not consolidated in previous years. The inclusion of this company in the 1966 comparative figures had the effect of reducing the 1966 opening consolidated retained earnings by $57,986 and reducing the 1966 consolidated net profit by $41,188. These amounts include the minority shareholders' share of the deficit less capital stock of the subsidiary at the beginning of the year and their share of the subsidiary's loss in the current year.

From the date of incorporation, March 22, 1954, to June 30, 1957 the activities of the subsidiary company, Canex Gas Ltd., were in an exploratory and development stage and all exploration and preproduction expenditures less miscellaneous income received were deferred and are being amortized by a unit of production method based on the estimated recoverable gas reserves of the company at June 30, 1957. Capital expenditures of Canex Gas Ltd. are included in the accompanying consolidated balance sheet in the appropriate classifications under fixed assets.

2. BANK LOANS:

Although the bank loans are subject to call on demand, under the agreed terms of repayment an amount of $481,200 will be repaid within the next twelve months. These loans are secured by certain of the companies' properties and production proceeds.

3. 6% NOTES PAYABLE:

The 6% notes payable in the amount of $300,000 are repayable in the amount of $100,000 on February 1 in each of the years 1968 to 1970 inclusive. Certain shares of a wholly owned subsidiary company are pledged as security for these notes.

4. FUNDED DEBT:

Funded debt consists of 5% Convertible Sinking Fund Debentures, Series A, of which the parent company has $541,500 principal amount outstanding, maturing December 1, 1970, and Canex Gas Ltd. has $491,500 principal amount outstanding, maturing July 15, 1971. The funded debt of $1,033,000 is net of $12,357 held in the sinking fund account and $191,643 included in current liabilities.

Series A debentures of the parent company are convertible into shares of the capital stock of the company at the option of the holders at the rate of 33 shares per $500 debenture until their maturity date. Series A debentures of Canex Gas Ltd. are convertible into shares of that company at the rate of 50 shares per $500 debenture until July 15, 1967 and thereafter at the rate of 40 shares per $500 debenture until their maturity date. During the year ended April 30, 1967 6,050 shares of Canex Gas Ltd. were issued upon the conversion of debentures.

The Series A debentures are redeemable out of the sinking fund and otherwise than out of the sinking fund at premiums varying with the date of redemption.

5. CAPITAL STOCK:

During the year the company issued 76,000 shares of its capital stock to four employees upon the exercise of restricted stock options granted in prior years and issued 15,375 shares of its capital stock under an offer it had made to accept shares of Canex Gas Ltd. that may be issued as a result of converting Canex Gas Ltd. debentures, and issue 2½ company shares for each Canex Gas Ltd. share tendered. Details of shares issued are as follows:

Number of shares		Allocation of Consideration: Total	Capital Stock	Contributed Surplus
75,000	to employees for $2.25 cash per share	$168,750	12,500	156,250
1,000	to an employee for $1.53 cash per share	1,530	167	1,363
76,000		170,280	12,667	157,613
15,375	for 6,150 shares of Canex Gas Ltd. which had been issued on the conversion of $61,500 principal amount of Canex Gas Ltd. debentures	61,500	2,563	58,937
91,375		$231,780	15,230	216,550

NOTES TO FINANCIAL STATEMENTS – Continued

Also during the year the company granted restricted stock options to five employees to purchase a total of 30,000 shares of its capital stock at $3.70 per share, exercisable one-fifth each year commencing August 23, 1967 on a cumulative basis.

The company has reserved the following shares of its capital stock:

134,250	shares in respect of the offer to accept shares of Canex Gas Ltd.
46,200	shares for exercise of the conversion privilege attaching to the company's 5% Convertible Sinking Fund Debentures.
144,000	shares for stock options to employees.
324,450	

The following restricted stock options granted to eight employees were outstanding at April 30, 1967:

	Expiry Date
85,000 shares at $2.25 per share (exercisable one-eighth each year commencing December 15, 1960 on a cumulative basis)	April 15, 1968
9,000 shares at $1.53 per share (exercisable one-fifth each year commencing February 10, 1966 on a cumulative basis)	June 8, 1970
30,000 shares at $3.70 per share (exercisable one-fifth each year commencing August 23, 1967 on a cumulative basis)	December 20, 1971

The trust indenture securing the company's 5% Convertible Sinking Fund Debentures, Series A, places a restriction upon the payment of dividends and upon the redemption or repayment of capital stock, unless, after giving effect thereto, the consolidated net current assets will be at least equal to 75% of the aggregate principal amount of funded obligations of the company then outstanding.

Subsequent to April 30, 1967 the company issued 7,125 shares of its capital stock in connection with the offer to accept shares of Canex Gas Ltd.

6. DIRECTORS' FEES:

During the year the company paid directors' fees in the amount of $2,400.

7. INCOME TAXES:

No provision has been made for income taxes for the year ended April 30, 1967 as each of the companies has drilling and exploration expenses which may, for income tax purposes, be applied against the current earnings so that no income taxes are exigible.

The drilling and exploration expenses which may, for income tax purposes, be applied against earnings in future years are estimated to amount, in the aggregate, to $5,350,000 at April 30, 1967. An account receivable of $4,000,000 arising from the sale of property will be included in income for tax purposes as received.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Export Gas & Oil Ltd. and Subsidiaries as of April 30, 1967 and the consolidated statement of earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings and retained earnings present fairly the financial position of the company and its subsidiaries at April 30, 1967 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and disposition of funds for the year ended April 30, 1967 presents fairly the information shown therein.

Calgary, Alberta
June 30, 1967

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

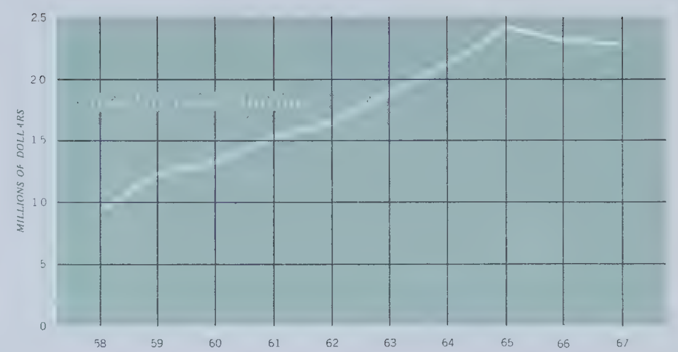
TEN YEAR STATISTICAL SUMMARY / 58 - 67

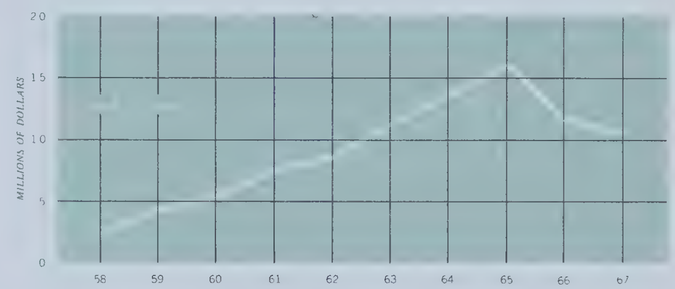
(Years ended April 30)

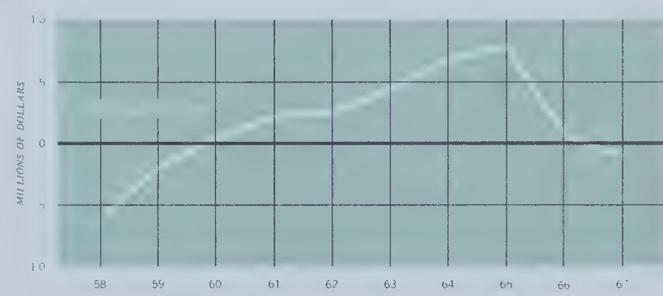
		1967	1966	1965	1964	1963
PRODUCTION:						
Oil —Annual	Barrels	425,690	403,883	414,111	382,515	414,404
Daily Average	Barrels	1,166	1,107	1,135	1,048	1,135
Gas—Annual	Billion Cubic Feet	6.867	7.945	8.710	7.466	5.752
Daily Average	Million Cubic Feet	19	22	24	20	16
EARNINGS:						
Gross operating income, less royalties paid	$	2,259,347	2,336,721	2,397,468	2,101,979	1,915,433
Net operating profit before depletion and depreciation	$	1,497,087	1,595,211	1,824,217	1,569,039	1,338,239
Cash flow from operations	$	1,018,319	1,172,273	1,588,082	1,395,376	1,126,147
Net earnings (loss) before depletion and depreciation	$	493,435	664,345	1,343,831	1,180,079	990,145
Net earnings (loss)	$	(98,425)	26,455	817,689	677,988	487,516
OPERATING EXPENSES:						
Production expenses	$	498,308	518,189	437,688	400,836	418,107
Administrative and general expenses	$	263,952	223,321	135,563	132,104	159,087
Total	$	762,260	741,510	573,251	532,940	577,194
CAPITAL STRUCTURE:						
Shareholders' equity	$	10,975,927	7,249,887	7,281,418	6,463,729	5,243,282
Funded debt	$	1,033,000	1,284,500	1,534,500	1,784,500	2,032,745
Bank and other loans	$	1,661,261	1,767,561	1,667,161	226,000	536,711
(Working capital) or deficit	$	(1,233,518)	134,690	195,798	27,848	384,860
Total capital invested	$	12,436,670	10,436,638	10,678,877	8,502,077	8,197,598
Number of shares outstanding		7,919,769	7,828,394	7,828,394	7,828,394	7,828,394
SIGNIFICANT RATIOS:						
Ratio of net earnings to gross earnings	%	—	1	34	32	25
Cash flow return on capital invested	%	8	11	15	16	14
Net earnings return on capital invested	%	—	—	8	8	6
Ratio of shareholders' equity to total capital invested	%	88	69	68	76	64
Ratio of operating expenses to gross earnings	%	34	32	24	25	30
Net book value of assets	Per share	$1.57	$1.33	$1.36	$1.09	$1.05
Cash flow	Per share	13¢	15¢	20¢	18¢	14¢
Net earnings	Per share	—	—	10¢	9¢	6¢
WELLS:						
Oil wells (net)		73	70	66	61	61
Gas wells (net)		65	87	77	75	77
Royalty interest wells (gross)		220	216	214	214	205
LAND HOLDINGS: (including royalty acreage)						
Gross acreage		2,221,383	2,698,346	2,831,728	893,331	4,335,811
Net acreage		1,104,868	2,042,318	2,227,392	306,901	324,128
OWNERS AND EMPLOYEES:						
Number of shareholders		8,586	7,790	5,022	5,250	5,521
Number of employees		33	37	38	32	31

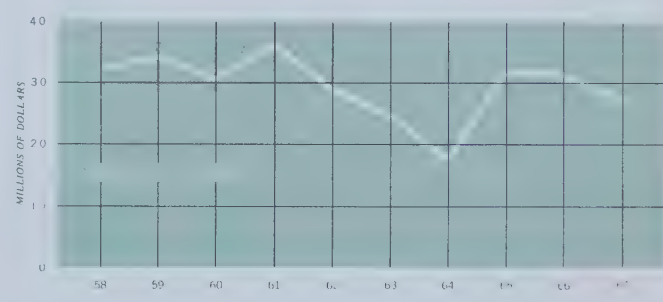
NOTE: This year, for the first time, Bluewater Oil & Gas financial and production data have been included in CEGO consolidated results. For comparative purposes, 1966 figures have been correspondingly adjusted.

1962	1961	1960	1959	1958
360,027	381,717	380,078	358,816	301,757
986	1,046	1,041	983	827
5.523	4.397	2.917	1.926	.288
15	12	8	5	1
693,754	1,538,581	1,327,713	1,273,901	935,308
112,679	1,077,870	804,679	771,575	509,173
883,660	792,359	524,987	471,069	206,765
782,814	703,635	435,498	215,142	(85,949)
266,601	222,658	28,747	(211,258)	(645,496)
377,353	303,212	307,087	208,936	114,296
203,722	157,499	215,947	291,904	311,839
581,075	460,711	523,034	500,840	426,135
755,766	4,175,977	3,466,287	2,798,476	2,988,213
279,150	2,509,500	2,784,500	3,071,500	3,250,500
712,111	1,136,211	325,800	429,000	—
417,561	428,051	1,080,986	627,013	88,732
164,588	8,249,739	7,657,573	6,925,989	6,327,445
828,394	7,628,394	7,428,394	7,166,453	7,019,456
16	14	2	—	—
11	10	7	7	3
3	3	—	—	—
58	51	45	40	47
34	30	39	39	46
$1.04	$1.08	$1.03	97¢	90¢
11¢	10¢	7¢	6¢	3¢
3¢	3¢	—	—	—
64	63	65	62	52
73	68	51	38	33
200	166	179	167	149
339,891	4,373,945	4,914,210	5,160,108	5,894,986
322,845	316,645	424,306	426,989	1,139,545
5,413	5,024	4,879	4,642	4,601
35	41	38	37	37









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INTERIM REPORT

Six months ended
October 31, 1967

CANADIAN EXPORT
CEGO
GAS & OIL LTD.

TO THE SHAREHOLDERS:

Financial

Gross income of $1,124,000 for the six month period ending October 31, 1967 was an increase of slightly less than 7% over the comparable period last year. Cash flow of $564,300 increased 13% with net earnings of $230,000 increasing appreciably over the $62,000 for last year. This latter increase of $168,000 is due essentially to lower dry hole and abandonment charges. Cash flow is running according to our projections and it is expected will show a comparable increase for the full year.

Operations and Development

The eleventh well drilled in the Swan Hills field has been successfully completed and is now on production. Plans are proceeding with our partners to process necessary background data for secondary pressure maintenance installation. It is hoped that these plans will be completed and water injection started sometime in the early Spring of next year.

Plans for construction in the East Crossfield sour gas Unit, which was mentioned in the last quarterly report, have been delayed because of strike problems related to installation. It is hoped however that these problems will be solved and construction completed by next April.

The proposed East Kaybob high condensate sour gas Unit has received Conservation Board approval. The additional drilling and the plans for the construction of the plant and formation of the production unit are proceeding according to schedule.

A successful gas well has been drilled by another company immediately to the north of a 100% owned 640 acres CEGO lease in the Ghost Pine area. Another well is now being drilled immediately to the south. Negotiations will be undertaken for a gas contract with Trans Canada Pipelines following the evaluation of the results from both wells.

Production

Oil production increased by 6% while gas production remained constant over the comparable period last year.

The following tabulation shows the Company's oil and gas production for the six month period ending October 31, 1967 as compared to the same period in 1966. The production shown is net to the Company after deduction of royalties:

	Six Months Ended October 31	
	1967	1966
Oil production – Bbls.	220,994	208,011
Average per day – Bbls.	1,201	1,130
Gas production – Mmcf	3,159	3,183
Average per day – Mmcf	17	17

Exploration and Land

Northern Alberta

Exploration of CEGO land in Northern Alberta is continuing this winter. The Company also purchased some additional acreage in the North Zama Lake area.

GAS & OIL LTD.

Two wells are presently being drilled by Imperial Oil on land farmed out by CEGO. As is usual in this area for competitive reasons, both are being drilled "tight," and therefore no information had been released at the time of writing this report. The wells are identified as IOE CEGO Rennie 3-22-111-4W5 and IOE CEGO Melvin 12-18-115-21W5.

Further exploration will take place on the 73,600 acre block (Townships 108 and 109 – reservation 450), which was farmed out to Ashland et al., on which one dry hole has been drilled. A third party will pay for a minimum of 60 miles of seismic exploration, which will give them an option to earn a 50% interest in this block by drilling a well to the basement. If this option is exercised CEGO will retain a 12½% interest in the reservation.

The new land purchased by the Company is in the North Zama area in which several oil pools have already been discovered. CEGO shared the cost of two 320 acre parcels. The total cost of one was $4,000 per acre and CEGO's interest is 37½%. Drilling has already been started on this acreage. The total cost of the other was $700 per acre, with CEGO taking a 22½% interest.

Peace River, Alberta
(Township 88, Range 22 W5)

A seismic program, and drilling of an exploratory well, has been negotiated for CEGO land at Peace River. The Company has pooled nearly 12,000 100% owned reservation acres with an equal amount from an adjoining land owner. The entire 23,000 acre block has been farmed out. The farmee will earn 25% interest and a further option by conducting 30 miles of seismic surveys and drilling a well to the basement. The further option to drill another well will earn the farmee an additional 25% interest. Assuming exercise of the option CEGO will retain a 25% interest.

Strachan, Alberta

The 14,000′ test of the D-3 formation mentioned in the last report is now a suspended gas well. By participating in this well to the extent of 12½%, CEGO has earned a net 6¼% interest in 7,680 acres.

Since drilling the well the Company has joined in the purchase of an adjacent 12,800-acre drilling reservation. Cost of the reservation was $1,568,000 and CEGO's share is 6¼%.

General

The government has received a great many submissions from the petroleum industry opposing the Carter report on taxation. There has also been opposition expressed from members of both major political parties.

Finance Minister Mitchell Sharp has indicated that the government will not implement the report as a package, citing as one of four main reasons its lack of sensitivity to regional needs in the case of the petroleum and mining industries.

A. F. Beck

A. F. BECK
President

December 4, 1967.

AR79

Canadian Export Gas & Oil Ltd. and Subsidiary Companies

CONDENSED STATEMENT OF EARNINGS

	Quarter Ended October 31		Six Months Ended October 31	
	1967	*1966	1967	*1966
Crude oil and natural gas sales, less royalties	$533,300	$508,000	$1,030,400	$975,600
Royalty income	49,300	47,500	93,600	79,300
GROSS INCOME	582,600	555,500	1,124,000	1,054,900
Production, administrative and general expenses	196,900	197,600	364,600	338,400
NET OPERATING PROFIT	385,700	357,900	759,400	716,500
Rentals, interest and miscellaneous – net	110,100	107,900	195,100	210,900
CASH FLOW	275,600	250,000	564,300	505,600
Dry holes and abandoned properties	28,000	47,800	32,500	144,200
NET EARNINGS BEFORE PROVISIONS	247,600	202,200	531,800	361,400
Provision for depletion and depreciation	153,600	153,200	301,800	299,400
NET EARNINGS before non-recurring loss	94,000	49,000	230,000	62,000
Non-recurring loss on disposal of property	–	269,600	–	269,600
NET EARNINGS (LOSS) including non-recurring loss	$ 94,000	($220,600)	$ 230,000	($207,600)

The above statement has not been audited.

*1966 figures have been revised to incorporate the results of a subsidiary company not previously consolidated and reclassified for comparative purposes.

Canadian Export Gas & Oil Ltd. and Subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

	Six Months Ended October 31 1967	1966
SOURCE OF FUNDS:		
Cash Flow	$ 564,300	$ 505,600
Proceeds from Sale of Capital Stock	96,800	168,800
Decrease in working capital	544,500	91,000
TOTAL FUNDS EMPLOYED	$1,205,600	$ 765,400
DISPOSITION OF FUNDS:		
Exploration:		
Land acquisition and exploration surveys	$ 615,400	$ 22,700
Wildcat and stepout drilling	72,800	228,700
Development and Other Expenditures:		
Drilling and equipment of wells	206,000	172,900
Gas gathering systems, plants and miscellaneous net	72,300	31,000
Long term debt reduction	239,100	310,100
TOTAL FUNDS USED	$1,205,600	$ 765,400

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